This paper was presented at the 19th International Conference on Sustainable Development, International Conference Center, Sorbonne University, Paris, France on August 26-27, 2024.

The Governance Strategy of the Sumatra Regional Development Bank to Minimize Agency Problems

Syaiful Azhar [1], Muhammad Zilal Hamzah [2], Rifki Ismal [3]
[1,2,3] Universitas Trisakti, Indonesia.
Corresponding authour: syaifulazhardatuk@gmail.com

OIDA International Journal of Sustainable Development, Ontario International Development Agency, Canada.
ISSN 1923-6654 (print) ISSN 1923-6662 (online) www.oidaijsd.com
Also available at https://www.ssrn.com/index.cfm/en/oida-intl-journal-sustainable-dev/

Abstract: Banks play an important role in the economy as an intermediary institution by storing funds from the community and then channeling them back in the form of credit. Currently, the development of the financial sector, banking, is one of the determinants of output growth in all countries, including Indonesia. This strategic role is shown through the growth trend of the banking industry; both in terms of number, market share, variety of operations, and products offered to the public. In addition to general banks that operate for national coverage, there are also regional development banks (BPD) that operate in each level 1 region and Rural Credit Banks (BPR) in levels 1 and 2 in Indonesia. This study aims to examine: (i). Is the Principal Agency Theory indicated in Governance at BPD in the Sumatra Region; (ii). What are the challenges and critical analysis of Governance at BPD in the Sumatra Region; and (iii). What is the strategy to minimize agency problems in Governance at BPD in the Sumatra Region? This study uses a qualitative approach with the Grounded Theory type. Data were collected through FGD activities and analyzed using the NVIVO device. From the results and analysis carried out, it can be concluded that: (i). There are still agency problems in the implementation of governance. This can at least be proven by the emergence of several nodes such as: 'Political Intervention', "Governor's Terms of Office", and "Dynamic Turnover". The difference in interests causes problems, namely asymmetric information where managers (management/agents) know all the company's information better than shareholders. This will cause agency costs, one of which is related to supervision costs; (ii). Several mapped constraints show the dominance of HR and Technology constraints. The HR in question refers to increasing competence so that it has an impact on a more transparent governance process. The informant indicated weak supervision of HR who have good performance; and (iii). There are several strategies that can be used to minimize agency problems in the implementation of BPD governance in Sumatra, such as: Transparency, Investment, Joint Business Groups, and so on. This study recommends that to minimize asymmetric information, and improve the quality of human resources, improvements related to transparency, human resource supervision, internal control, and service instructions for inverbal explanation, must be implemented.

Keywords: Governance Strategy, Agency Problem, Regional Development Bank, Qualitative Research

Introduction

Banks play an important role in the economy as an intermediary institution through storing funds from the community and then distributing them back in the form of credit (Fahmi, 2016). One of the studies conducted by Ahmad & Malik (2009) and Saqib (2013) showed that the development of the financial sector, including banking, is one of the determinants of output growth in developing countries. This proves that banks have an important role in supporting the economic growth of developing countries, including Indonesia. The strategic role of the banking sector for the economy of developing countries, including Indonesia, is shown through the growth trend of the banking industry both in terms of number, market share, variety of operations, and products offered to the public. Fahmi (2016) argues that financial institutions in a country must always be in good health, both in the short and long term. There are several reasons why the level of bank health is crucial in the financial institution system (Fahmi (2016), namely: (i). The unique characteristics of banking that are vulnerable to the onslaught of people who withdraw funds on a large scale, which has the potential to harm bank depositors and creditors; (ii). The spread of losses among banks is very fast through the contagion effect, which has the potential to cause systemic problems; (iii). The process of resolving problematic banks requires a large amount of funds; (iv). The loss of public trust in banks as intermediary institutions will cause pressures in the banking sector; and (v). The instability of the financial sector will have an impact on macroeconomic conditions, especially in relation to the ineffective transmission of monetary policy. The health of the banking sector is very much determined by how the banking sector is managed. Ghalib (2018) in his study found that governance factors are determinants of the level of bank profitability.

At the regional level, the role of banking in Indonesia is filled by the presence of BPD as one of the general banks whose shares are owned by the Provincial and Regency/City Governments. BPD has a significant function and role in supporting regional economic development because BPD is able to open service networks in areas that are economically not carried out by private banks (Dialysa, 2018). The role of banking in the regions is in line with its production capacity. One of the largest output contributors in Indonesia is centered on the island of Java (57.02%). The island of Sumatra is the second largest contributor after that (22.01%). With the large contribution of the island of Sumatra, the role of banking is important in supporting regional economic growth, especially BPD. In Sumatra, there are several Regional Development Banks that are now continuing to maintain their existence. The following is data on BPDs in the Sumatra region, as follows: (i). BPD Aceh; (ii). BPD North Sumatra; (iii). BPD Jambi; (iv). BPD West Sumatra; (v). BPD Riau-Kepri; (vi). BPD Sumsel-Babel; (vii). BPD Bengkulu; and (viii). BPD Lampung. The data above shows that there are 8 (eight) BPDs in the Sumatra region, with the function of the Regional Development Bank as regional economic development and driving regional economic development, to improve the standard of living of local communities. BPD has different characteristics from other bank groups (BUMN, private, foreign and mixed) namely that most of the DPK (are government funds, especially the Regional Government (see Lisdayanti et al., 2013) and serve most of the MSME and Agricultural Sectors (see Purwanto, 2019), and as an agent of development (Kinanti, 2014).

Not only as an agent of development in increasing regional economic development, of course BPD as a financial institution must have good governance, so that it can develop by increasing its profits and become a controlled organization. Bhaidhani, (2016) stated that corporate governance is a system used to direct and control an organization. This includes the relationship between company owners, and accountability, as well as laws, policies, procedures, practices, standards, and principles that can influence the organization to be more focused and can be monitored with a good internal control system and monitored regularly. The problem of banking governance is a global issue that continues to be discussed and is a consideration for shareholders, management, and banking regulators. Yuniarti et al., (2018) showed that GCG is determined by managerial ownership and an independent board of directors and GCG affects banking stability both directly and indirectly through banking risk, and GCG directly affects banking stability but does not directly affect market discipline. Furthermore, research on GCG is also associated with indications of agency theory and moral hazard which conclude that on the side of agency theory, this moral hazard arises due to conflicts of interest and information asymmetry between managers (agents) and shareholders (principals). Conflicts of interest occur because managers want maximum profit for bonus purposes at the expense of long-term performance which is in the interests of shareholders. While information asymmetry is due to the separation of management functions managed by managers and ownership functions held by shareholders. So that a GCG mechanism is needed to reduce moral hazard behavior which includes managerial ownership, board of commissioner structure, and audit committee (see among others: Sayidah, 2004; Boshkoska, 2014). Agency problems occur due to information asymmetry between again and shareholders (agents/managers who are more dominant in obtaining information compared to shareholders). In most cases there are a large number of parties involved and interested such as: shareholders, board of directors, board of managers, managers, government, employees, clients, regulations, and the media (Larcker & Tayan, 2011); (Michael, 2013); and Odia & Ogiedu, (n.d.). Therefore, a strong corporate governance mechanism consisting of more non-executive directors and institutional ownership is recommended to reduce agency conflicts and increase dividend payments (see: Margaretha & Asmariani, 2009; Lubis, 2016).

Furthermore, in a study conducted by Felicio, 2018, it was stated that conflict can be minimized with different governance (Felício, et al., 2018). The components seen in the agency problem include the number of Board of Commissioners, the number of Board of Directors, the number of Audit Committees, the number of Risk Monitoring Committees, the number of internal frauds, the frequency of Board of Commissioners and Board of Directors meetings, and the Bank's Health Level (Primasari & Sudarno, 2013), (Khoiruddin & Noekent, 2011). The importance of minimizing agency problems that occur in financial institutions is because there are many things that can damage the system when agency problems occur in financial institutions. When viewed from the fraud cases and the Bank Health Level assessment, agency problems occur and are even classified as increasing in the number of findings. This is in line with research conducted by (Nur & Tarjo, 2020) that maximum GCG implementation can prevent fraud in companies. This is what prompted researchers to conduct research on bank governance in minimizing agency problems in BPD in the Sumatra region. Thus, this study aims to: (i). Analyze and examine whether the Principal Agency Theory is indicated in Governance (GCG) in BPD in the Sumatra Region; (ii). Analyze and examine how the challenges and critical analysis of Governance (GCG) in BPD in the Sumatra Region; and (iii). Analyze and examine how the strategy minimizes agency problems in Governance in BPD in the Sumatra Region.

Theoretical Background

Banking Theory

Fahmi (2016) stated that a country that has high economic activity, then the role of financial institutions must also be high, especially banking. This requires the condition of the financial sector to be healthy in terms of business. Furthermore, one of the functions of banking is to be an institution that bridges people who have excess funds (surplus) with parties who lack funds (deficit). Some fund placements can be in the form of savings, deposits, bonds, stocks, and so on. Furthermore, Fahmi (2016) explains several main functions of banks: (i). Building and providing payment services for business transaction needs, both domestically and abroad; (ii). Building investment through credit distribution based on appropriate criteria and requirements; and (iii). Providing storage services in the form of savings and deposits as a form of the bank's task as a fund collector. Furthermore, Fahmi (2016) describes the function of bank management, several management activities, namely: (i). Preparing a business plan (both short-term and long-term) including setting business targets/goals to be achieved; (ii). Preparing an organizational structure based on the field of business/services and volume of activities; (iii). Mobilizing/utilizing all bank resources, especially Human Resources (HR) and managed funds; and (iv). Implementing Supervision of bank business activities. Furthermore, the elements contained in the banking organizational structure are not much different from several other organizations or industries such as Shareholders, Board of Commissioners, Board of Directors, Executive Officers, and Employees.

Corporate Governance

Governance is a set of rules that determine the relationship between shareholders, managers, creditors, government, employees, and other internal and external stakeholders in accordance with rights and responsibilities (FCGI, 2001). Good corporate governance is a set of relationships between company management, the board, shareholders, and other stakeholders (OECD, 2004). The main objective of good corporate governance is to create a system of control and balance (check and balance) to prevent misuse of resources and always encourage the company to grow a company's business (Nur'ainy et al., 2013; Hamdani, 2016). The implementation of corporate governance based on agency theory can be explained through the relationship between management and owners and management as an agent is morally responsible for optimizing the principal's profit and in return will receive compensation in accordance with the contract. The Corporate Governance mechanism consists of: (i). Board of Directors; (ii). Independent Commissioner (who functions to supervise the performance of the board of directors and also as a balance of power between the CEO and the board of commissioners; (iii). Managerial Ownership, where the increasing proportion of share ownership by the board of directors and commissioners, the better the company's performance and the possibility of the company experiencing financial pressure is smaller; and (iv). Institutional Ownership, where the greater the institutional ownership, the more efficient the use of the Company's assets. Larger institutional ownership (more than 5%) indicates its ability to monitor management (see also Triwahyuningtias & Muharam, 2012; Wardhani, 2006; and Sastriana & Fuad, 2013).

In general, there are five principles of Good Corporate Governance, namely: Transparency, Accountability, Responsibility, Independence, and Fairness. In Indonesia, in implementing GCG principles, Banks are guided by applicable laws and regulations. including: (i). Law of the Republic of Indonesia No. 40 of 2007 concerning Limited Liability Companies; (ii). Law of the Republic of Indonesia No. 10 of 1998 concerning amendments to Law No. 7 of 1992 concerning Banking; (iii). Regulation of the Financial Services Authority No. 55/POJK.03/2016 concerning Implementation of Governance for Commercial Banks which has been in effect since December 7, 2016; (iv). POJK No. 21/POJK.04/2015 concerning Implementation of Guidelines for Governance of Public Companies; (v). POJK No.17/POJK.03/2014 dated 18 November 2014 concerning the Implementation of Integrated Risk Management for Financial Conglomerates; (vi). POJK No.18/POJK.03/2014 dated 18 November 2014 concerning the Implementation of Integrated Governance for Financial Conglomeration; (vii). POJK No. 45/POJK.03/2020 dated

16 October 2020 concerning Financial Conglomerates; (viii). Other POJKs include those regulating the Audit Committee, Nomination and Remuneration Committee, Board of Commissioners and Board of Directors, Implementation of General Meetings of Shareholders, Internal Audit, Public Accountants and Public Accounting Firms, and Compliance Directors and Corporate Secretaries; (ix). General Guidelines for Good Corporate Governance Indonesia from the National Committee for Governance Policy (KNKG); (x). Bank Articles of Association; and (xi). Bank Policies and Procedures.

Agency Theory

Agency theory has developed along two lines: positivist and principal-agent (Jensen, 1983). Positivist theory focuses on helping to explain situations where principals and agents tend to have conflicting goals and then describes governance mechanisms that limit agents' self-interested behavior. This theory assumes the possibility of managers fulfilling their personal interests above the interests of the company. This is because of the separation between shareholders and managers, which gives rise to agency costs that must be managed through various mechanisms. One important implication of the agency problem concerns financial policy, especially regarding the two choices, whether to use debt or equity to finance business activities.

Agency theory indicates that there is a conflict of interest carried out by the parties involved in the company in different ways, which will make the achievement of company value less than optimal. According to Jensen & Meckling (1976), an agency relationship is a contract under one or more principals with another person as an agent to perform services in the interests that include the delegation of authority in making decisions to the agent. If both parties are oriented towards their respective interests, it is the reason why agents do not act well towards the principal. This shows that the principal can limit the difference in interests by providing incentives for agents and holding monitoring costs that are used to limit deviant agent activities. Yushita (2010) stated that agency problems arise when the principal has difficulty ensuring that the agent acts to maximize the principal's welfare. According to agency theory, one way to align the goals of the principal and agent is through a reporting mechanism (Luayyi, 2010). Information is one way to reduce uncertainty, so accountants have an important role in sharing the risks of managers and owners. General theory of principal-agent relationships, a theory that can be applied to employer-employee, attorney-client, buyer-supplier, and other agency relationships (Harris & Raviv, 1978; Fama, 1980; and Fama and Jensen, 1983). Characteristics of formal theory, The principal-agent paradigm involves careful determination of assumptions, followed by logical deduction and mathematical proof. Compared to the positivist stream, principal-agent theory is abstract and mathematical and, therefore, less accessible to organizational scholars. Indeed, it has been the theory's most vocal critics (Perrow, 1986; Hirsch et al., 1987; and Demski & Feltham, 1978).

Stakeholder Theory

Stakeholder Theory is a view of capitalism that emphasizes the interconnected relationships between a business and its customers, suppliers, employees, investors, communities, and other parties with a stake in the organization. The theory holds that a company should create value for all stakeholders, not just shareholders. In 1984, R. Edward Freeman originally detailed the Stakeholder Theory of organizational management and business ethics which addresses the morals and values in managing an organization. His award-winning book Strategic Management: A Stakeholder Approach identified and modeled the groups that constitute a company's stakeholders, and both described and recommended methods that management can use to address the interests of these groups. The theory has become a central consideration in the study of business ethics and has served as a foundation for further study and development in the research and published works of many scholars, including those featured on this website. Since the 1980s, there has been a substantial increase in the prominence of the theory, with scholars around the world continuing to question the sustainability of the focus on shareholder wealth as the most fundamental business goal. Stakeholder theory states that a company is not an entity that only operates for its own interests, but must provide benefits to stakeholders (shareholders, BOD, consumers, suppliers, government, and society). Freeman (2004) stated that stakeholder theory begins with the assumption that value is important and is explicitly part of the business. This shows that managers state the value statement and what stakeholders will get. It also pressures managers on how they do clean business. The focus of this theory lies in two questions (Freeman, 2004) concerned in creating corporate value and the responsibility that management has to stakeholders, where the company's goal is to create value for all stakeholders in society by creating goods and services. Theory Vernimmen, et al (2022) states as follows: "Signalling theory states that corporate financial decisions are signals sent by the company's managers to investors in order to shake up these asymmetries. This is where the importance of stakeholders, especially creditors and investors, can use information, both financial and non-financial, to make business decisions and weaken information asymmetry. One of them also analyzes the implementation of GCG and CSR of the company.

Previous Study

There are previous studies on agency problems including: Boshkoska (2014); Demsetz et al (2011); Eisenhardt & Eisenhardt (2018); James (2013) in Nigeria; Rozeff (1982) and Jensen et al (1992); Odia & Ogiedu, (n.d.); and Michael (2013). Boshkoska (2014) stated that agency problems arise when there are differences between management and shareholders, not in the interests of shareholders. In this case, management acts to maximize personal wealth. This study recommends helping with this problem through internal and external actions. Demsetz et al. (2011) argue that the occurrence of agency problems in banking is a problem of management and bank owners, so the way to mitigate it is by balancing the risk taking considered by management, because this can occur from moral hazard. Therefore, to overcome moral hazard, it is necessary to consider risk-taking from bank management. Eisenhardt & Eisenhardt (2018) in their study recommend ways to overcome agency problems, namely: (i). Focus on Information Systems, Uncertainty Results, and Risk; (ii). Theory Relevant Context where this theory emphasizes that agency theory is most relevant in situations where there is a substantial conflict of goals between the principal and the agent, sufficient uncertainty of results to trigger the risk implications of the theory; and unprogrammed or team-oriented work where behavioral evaluation is difficult.

Then research conducted by James (2013) in Nigeria showed that agency conflicts that occur as a result of information asymmetry between management and shareholders or owners because owners may want dividends but management wants to maintain a surplus to take advantage of available investment opportunities. Corporate governance is expected to help prevent or minimize this agency conflict.

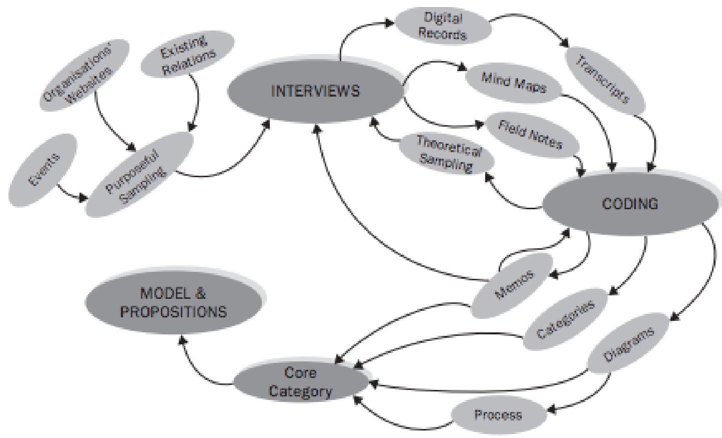
Rozeff (1982) and Jensen et al (1992) cash flow and company sales growth have a negative and insignificant relationship with dividend payments. Along with increasing investment opportunities and leverage, dividend payout also increased. Again insider ownership and institutional investors did not have a significant influence on dividend payout indicating that insiders may be directly or indirectly more interested in benefits, compensation and other remuneration than dividends. In fact, the negative and insignificant relationship of cash flow and sales/earnings growth of the firm with dividend payout indicates that excess cash and sales growth of the firm did not result in increased dividend payout.

Michael (2013) showed that ten predictors by shareholders will affect firm value, and thus should increasingly include shareholders' interests in their corporate dividend decisions; Thus the existence of agency conflict in listed companies in Nigeria does not affect the dividend policy of the firm, sense of ownership, increase satisfaction and reduce agency conflict; corporate boards of listed companies in Nigeria should be aware of the withdrawal of shareholding that good corporate governance structure should reign in listed companies creating a better decision structure for dividends, forcing managers/management-shareholders to consider shareholders' interests in dividend policy decisions; there should be increased shareholder representation on the boards of listed companies in Nigeria to increase the likelihood of consideration of shareholder interests in corporate dividend decisions (Michael, 2013).

Research Method

This study uses a qualitative approach with the Grounded Theory type (coding analysis). Bandur (2019), describes several characteristics of qualitative research, namely: (i). Understanding the meanings conveyed by respondents to the phenomenon being studied; (ii). Providing open-ended questions to understand the complexity of the main ideas or phenomena being studied; (iii). Data can be in the form of words/text, images, and so on; (iv). Use of text analysis, images, and so on to obtain broad and general patterns; and (v). Identifying the opinions/positions of each participant. Bryant (2017) maps the ecosystem in grounded theory research as shown in the image below:

Figure 1. Grounded Theory Methods



Source: Bryant (2017)

Referring to the Grounded Theory ecosystem, the data collection process flow in this study was carried out through Focus Group Discussion (FGD) involving stakeholders in accordance with the formulation of the problem that was built in accordance with the characteristics of qualitative research. FGD was carried out by directing informants (stakeholders) to provide perspectives on the formulation of the problem formed in this study so that the objectives of this study can be answered. Furthermore, the coding process with the help of NVIVO software. Before conducting data analysis using NVIVO, there are several stages that are a single unit in the coding procedure that need to be followed (Bandur, 2019; Creswell, 2009; Raco, 2010): (i). Data management. At this stage, researchers begin to store all types of qualitative data in folders created in NVIVO; (ii). Exploratory analysis. At the next stage, researchers begin to explore each data to get an overview through skimming techniques (fast reading) to get the main ideas; (iii). Node system. At this stage, the researcher will create categories or sub-categories of concepts based on information obtained through data; (iv). Coding. At this stage, the researcher will fill the nodes with information related to the concept categories that have been formed in the node system; (v). Integration & Disintegration. At this stage, the researcher will unite all nodes that have the same information characteristics and at the same time remove them from the node system; and (vi). Visualization of data reports. At this stage, the researcher will explore various analysis schemes owned by NVIVO. In this study, there were 7 informants representing the perspectives of stakeholders. The FGD was held online on June 19, 2024. The following is a profile of some related data, as follows:

Table 1. Informant Profile

No.	Informant Name	Occupation	Organization	Category
1	Dr. Eksir	Compliance Director	PT. BPD Sumatera Utara	Operator
2	Erlina, PhD	Independent Commisioner	PT. BPD Sumatera Utara	
3	Dr. (Cand) Roy Prakoso	Independent Commisioner	PT. Bank Riau Kepri Syariah	
4	Otto Fitriandi	Head of Regional Office	Indonesian Financial Services Authority	Regulator
5	Dr. Naslindo Sirait	Department Head	North Sumatra Province Cooperatives and Small & Medium Enterprises Department	
6	Rita Anugerah, Ph.D	Professor	Riau University	Academia
7	Babay Fariz Wazdi	Chairman Member	Regional Bank Association	Association

Source: Author

Result Analysis

Focus Group Discussion (FGD) Result

As previously explained, informants are divided into 4 categories, namely: Operators, Regulators, Academics, and Associations. and 8 transcripts will be processed for coding. The presentation delivered by Informant 1 (Eksir) focused on the principles of governance in general and conflicts of interest, especially in BPD, that occurred. The informant mentioned the importance of overcoming conflicts of interest in order to be able to carry out better governance; *"... The challenge according to my experience, my understanding, just sharing for 7 years in Regional Development is whether we are able to avoid this conflict of interest not only occurring in managers to agencies but also to principals to shareholders...."*

Furthermore, the presentation delivered by Informant 2 (Erlina) in general is about the governance aspect of BPD, especially in the HR aspect. The following is a statement that shows what is meant: *"So actually the problem of human resources and technology cannot be separated from each other and the other is interrelated, so if we improve technology, we must also improve human resources..."*

The presentation made by Informant 4 (Otto Fitriandi) generally refers to the governance and performance of BPD Sumatra in general through the statement below: *"I will highlight a little about the performance and readiness of banking eee especially BPD in the Sumatra region later eh compared to eee throughout Indonesia and all general banks throughout Indonesia... The assets of BPD Sumatra are still below the assets of national Conventional General Banks and national BPDs..."*

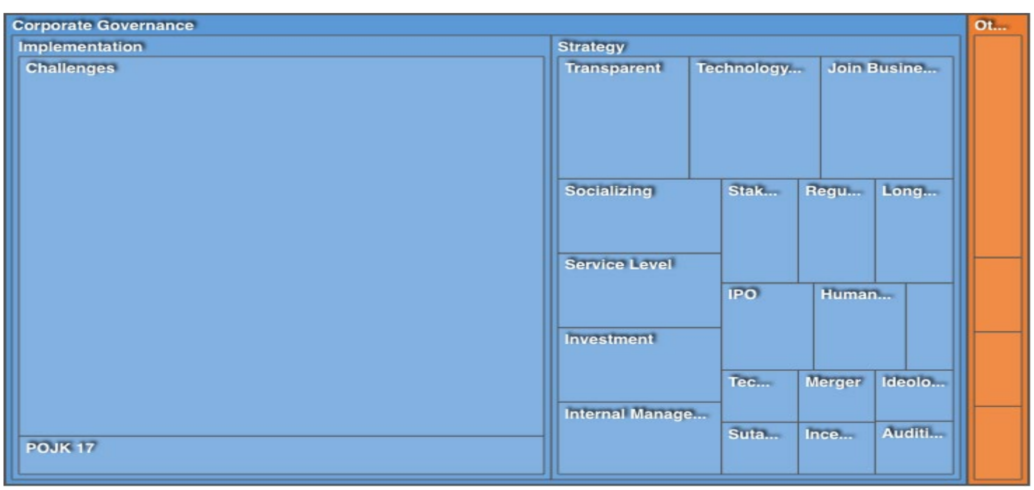
The presentation made by Informant 6 (Rita Anugerah) generally refers to the concept of theory and implementation of agency theory. *"We will return to the agency theory itself, Jensen & Meckling (1976) if we want to refer to experts or theories about agency. This article on Agency Theory was later adopted by many business companies revealing something that does exist in an organization. We can see here that the theory emphasizes that a conflict of interest always exists between the principal and the agent..."*

Informant 7 (Babay Fariz Wazdi) conveyed in the context of Governance and HR issues and technology through the following statement: *"Well, we must continue to develop HR competencies and professionalism, the lag in Innovation and technology, and transparency and risk management that we still have to improve, that's how it is"... Ladies and gentlemen, so earlier we encouraged the education, healthcare and agro-business sectors in Nias to combine How to move forward together..*"

Coding Analysis

The following is an aggregate coding hierarchy to see which nodes are the most dominant (or have the most coding activity) from all informants, as follows:

Figure 2. Aggregate Hierarchy



Source: Data processed

Referring to the research objectives that have been set, 1 Nodes System can be built that includes several research objectives. The intended research objectives include: (i). Analyzing and reviewing the Principal Agency Theory in governance at BPD in the Sumatra Region; (ii). Critically analyzing and reviewing the application of governance in BPD in the Sumatra Region; and (iii). Analyzing and reviewing strategies to minimize agency problems in governance at BPD in the Sumatra Region. Based on these objectives, a nodes system called "Corporate Governance" was built which has sub-nodes below it, namely "Implementation" and "Strategy". The development of the intended nodes system is because the research objectives in context refer to the implementation of BPD governance which is associated with agency theory.

In aggregate, there are at least 23 nodes with the highest hierarchy, namely (the rest can be seen in Figure 1 and the size can be seen in the coding nodes attachment). The following is a table that describes the number of references in aggregate (including sub-nodes, if any) from each of these nodes, as follows:

Table 2. Reference Nodes Aggregate Hierarchy

No.	Nodes	Ref.	Files Coded	Max. Value	Share
1	Competencies	7	7	7	100%
2	Technology	7	7	7	100%
3	POJK 17	5	5	7	72%
4	Conflict Interest	5	5	7	72%
5	Asymmetric Information	4	4	7	57%
6	Dynamic Turnover	4	4	7	57%
7	Government Budget > Equity	4	4	7	57%
8	Transparent	4	3	7	57%
9	Commitment	3	3	7	43%
10	Governor's Terms of Office	3	3	7	43%
11	Political Intervention	3	3	7	43%
12	Third Party Fund	3	3	7	43%
13	Investment	3	3	7	43%
14	Joint Business Group	3	3	7	43%
15	Technology > Market Expansion	3	3	7	43%
16	Credit Portfolio	2	2	7	29%
17	Human Capital Supervision	2	2	7	29%
18	Internal Management	2	2	7	29%
19	IPO	2	2	7	29%
20	Long-run Governance	2	2	7	29%
21	Regulation	2	2	7	29%
22	Service Level	2	2	7	29%
23	Stakeholders Sinergy	2	2	7	29%

Source: Data processed

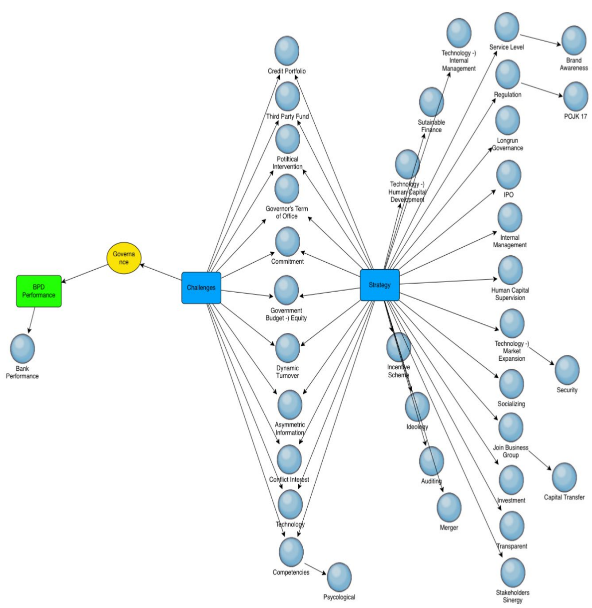
The results show that the 23 nodes above have the largest contribution to the overall hierarchy, both in terms of the number of references and data sources (transcripts). This indicates that overall (4 categories of informants), both implicitly and explicitly, matters related to Human Resources and technology are the most frequently mentioned. In addition, informants also predominantly mention POJK 17 and conflicts of interest. The dominance of the four nodes indicates that, in relation to governance with agency theory, HR issues, technology, regulation, and conflicts of interest are most frequently mentioned by informants. The "Competencies" and "Technology" nodes have the largest number of references, namely 7 or contribute 100%. Meanwhile, the other two nodes (POJK 17 and Conflict Interest) have 5 references or a total contribution of 72%. This means that matters regarding HR and technology, both explicitly and implicitly, are mentioned by all (7) informants involved (100%). Meanwhile, POJK17 and matters related to conflicts of interest were discussed by around 75% of the informants involved. In addition, the nodes “Asymmetric Information”, “Dynamic Turnover”, “Government Budget > Equity”, and “Transparent” also have 4 references that are mentioned by at least > 50% of the informants involved.

Next, the results of the comparative diagram analysis, where this section is the second stage in the coding analysis (Second Cycle Coding). The Second Cycle Coding is based on nodes or coding that have been created previously (First Cycle Coding). The results illustrate the similarities in the things mentioned by each informant (category). The following will show the similarities of nodes between Regulators and Operators, where there are around 19 similarities of nodes (POJK 17, Conflict Interest, Governor's Term of Office, Dynamic Turnover, Government Budget > Equity, Technology, Competencies, Third Party Fund, Joint Business Group, IPO, Regulation, Socializing, Technology > Market Expansion, Human Capital Supervision, Stakeholders Sinergy, Investment, Bank Performance, Transparent, and Asymmetric Information) that are mentioned by both parties. The comparative diagram analysis between Regulators and Associations shows around 7 similarities of nodes (Conflict Interest, Government Budget > Equity, Technology, Competencies, Third Party Fund, Join Business Group, and Transparent) that are mentioned by both parties.

Furthermore, the results of the comparative diagram analysis between Regulators and Academics show around 9 similarities of nodes (POJK 17, Conflict Interest, Technology, Competencies, Socializing, Investment, Commitment, Transparent, and Asymmetric Information) that are mentioned by both parties. The results of the comparative diagram analysis between Operators and Associations show that there are around 9 similar nodes (Conflict Interest, Political Intervention Government Budget > Equity, Technology, Competencies, Third Party Fund, Join Business Group, and Transparent) that are mentioned by both parties, both. The results of the comparative diagram analysis between Operators and Academics show that there are around 8 similar nodes (POJK 17, Conflict Interest, Technology, Competencies, Socializing, Investment, Transparent, and Asymmetric Information) that are mentioned by both parties. The results of the comparative diagram analysis between Associations and Academics show around 4 similar nodes (Conflict Interest, Technology, Competencies, and Transparent) that are mentioned by both parties.

Furthermore, based on the analysis that has been carried out (first cycle coding and second cycle coding) a concept mapping will be built to draw a comprehensive pattern. The following is a figure that shows what is meant:

Figure 3. Concept Map



Source: Data processed

Based on the image above, in the process of implementing governance in BPD, several obstacles are still found which are also strategies that can be used to minimize agency problems. This is shown through the nodes: 'Credit Portfolio', 'Third Party Fund', 'Political Intervention', 'Governor's Term of Office', 'Commitment', 'Government Budget > Equity', 'Dynamic Turnover', 'Asymmetric Information', 'Conflict Interest', 'Technology', and 'Competencies'. Furthermore, several strategies do not seem to be obstacles, such as: 'Service Level', 'Regulation', 'Internal Management', 'IPO', 'Merger', 'Socializing', 'Investment', 'Transparent', 'Auditing', 'Technology > Market Expansion', and so on. Obstacles in implementing governance will have an impact on banking performance.

Conclusion and Policy Recommendations

Conclusion

Based on the results and analysis that have been described previously, several conclusions can be drawn related to this study, as follows:

1. There are still agency problems in the implementation of governance. This can at least be proven by the emergence of several nodes such as: 'Political Intervention", "Governor's Terms of Office", and "Dynamic Turnover". This agency problem is caused by the separation of ownership and control between shareholders (Local Government) and BPD management. The difference in interests gives rise to asymmetric information problems where managers (management/agents) know all the company's information better than shareholders. Furthermore, this will give rise to agency costs, related to supervision costs.
2. The implementation of governance in BPD Sumatra is hampered by many HR and Technology constraints. HR in BPD is constrained by psychological or motivational problems caused by weak supervision and political intervention. 3. Several strategies that can be used to minimize agency problems in the implementation of BPD governance in Sumatra, including Transparency, Investment, Joint Business Groups, and Market Expansion.
3. Business Expansion, HR, and Internal Control in this case transparency refers to the role of the Board of Commissioners and is also related to information disclosure. In addition, the Investment in question refers to HR and technology investments. Joint Business Groups (KUB) refer to capital transfers. Market expansion refers to the role of technology in BPD business expansion. Socialization refers to the penetration of POJK 17 concerning deeper governance on the Principal and Agent sides.

Policy Recommendations

Finally, as the recommendation of this article, organizations should be try to minimizing asymmetric information, improving HR quality, improvements related to transparency, HR supervision, internal control, and service instructions for in verbal explanations, in order to reduce the agency problem.

List of Reference

Ahmad, E., & Malik, A. (2009). Financial Sector Development and Economic Growth: An Empirical Analysis of Developing Countries. *Journal of Economic Cooperation and Development*, *30*(1), 17-40.

Bandur, A. (2019). *Penelitian Kualitatif: Studi Multi-Disiplin Keilmuan dengan NVIVO 12 Plus.* Bogor: Penerbit Mitra Wacana Media.

Bhaidhani, A. M. Al. (2016). The Role of Audit Committee in Corporate Governance: Descriptive Study. *International Journal of Research & Methodology in Social Science*, *April*, 45–57.

Boshkoska, M. (2014). The Agency Problem: Measures for Its Overcoming. *International Journal of Business and Management*, *10*(1).

Bryant, A. (2017). *Grounded Theory and Grounded Theorizing: Pragmatism in Research Practice.* New York: Oxford University Press.

Creswell, J. W. (2009). *Research Design - Qualitative, Quantitative, & Mixed Methods Approaches: Third Edition.* London: SAGE Publication.

Demsetz, R. S., Saidenberg, M. R., & Strahan, P. E. (2011). Agency Problems and Risk Taking at Banks. *SSRN Electronic Journal*.

Demski, J. & Feltham, G. (1978). Economic Incentives and Budgetary Control Systems. *Accounting Review*, p. 336-359.

Dialysa, F. (2018). Analisis Perbandingan Financial Distress pada PT. Bank Pembangunan Daerah Jawa Timur, Tbk. (Bank Jatim) menggunakan Model Altman Z-Score dan Grover G-Score. *Banking & Management Review*, 903–916.

Eisenhardt, K. M., & Eisenhardt, K. M. (2018). Agency Theory: An Assessment and Review. *Academy of Management*, *14*(1), 57–74.

Fahmi, I. (2016). *Bank & Lembaga Keuangan Lainnya: Teori & Aplikasi.* Bandung: Alfabeta.

Fama, E. F. (1980). Agency Problems and the Theory of the Firm. *Journal of Political Economy*, *88*(2), 288-307.

Fama, E. F., & Jensen, M. C. (1983). Agency Problems and Residual Claims. *The Journal of Law and Economics*, *26*(2), 327-349.

FCGI. (2001). *Corporate Governance: Tata Kelola Perusahaan*

Felício, J. A., Rodrigues, R., Grove, H., & Greiner, A. (2018). The Influence of Corporate Governance on Bank Risk During a. *Economic Research-Ekonomska Istraživanja*, 1078– 1090.

Freeman, R. E. (2000). Business Ethics at The Millennium. *Business Ethics Quarterly*, *10*(1), 169-180.

Ghalib, S. (2018). Good Corporate Governance Rating and Bank Profitability in Indonesia: Evidence from Panel Data. *International Journal of Business & Society*, *19*(3)

Hamdani, M. (2016). Good Corporate Governance (GCG) Dalam Perspektif Agency Theory. *Semnas Fekon*, *2016*, 279-283.

Harris, M., & Raviv, A. (1978). Some Results on Incentive Contracts with Applications to Education and Employment, Health Insurance, and Law Enforcement. *The American Economic Review*, *68*(1), 20-30.

Hirsch, P. Michaels, S. & Friedman, R. (1987). Dirty Hands Versus Clean Models: Is Sociology in Danger of Being Seduced by Economics? Theory and Society, pp 317- 336

https://www.ojk.go.id/id/kanal/perbankan/regulasi/peraturan-ojk/Pages/POJK-tentang- Penerapan-Tata-Kelola-bagi-Bank-Umum.aspx

Isniar, B. (2011). Penerapan Prinsip-Prinsip Good Corporate Governance (GCG) Pada Dunia Perbankan. *Majalah Ilmiah UNIKOM*, *8*(2), 263–269.

James, O. (2013). Payout Policy, Agency Conflict, and Corporate Governance in Nigeria. *Review of Public Administration and Management Vol. 2, No. 3*, P. 48-61.

Jensen, G.R., Solberg, D.P. and Zorn, T.S. (1992). Simultaneous Determination of Insider Ownership, Debt, and Dividend Policies. *Journal of Financial and Quantitative Analysis, Vol. 27 No. 2, pp. 247-63*.

Jensen, M.C. and W.H. Meckling. (1976). Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure. *Journal of Financial Economics 3 (4), 305-360.*

Khoiruddin, M., & Noekent, V. (2011). Meminimumkan Agency Problem Dan Agency Cost Dengan Menggunakan Konsep Islam Tentang Perusahaan: Antara Teori Dan Praktik. *Jurnal Ekonomi & Keuangan Islam*, 149-167.

Kinanti, L. (2014). Analisis Perbandingan Kinerja Keuangan Bank Pembangunan Daerah Sebelum dan sesudah Program BPD Regional Champion dengan Metode RGEC, 139.

Larcker, D. F., & Tayan, B. (2011). Seven myths of corporate governance. *Rock Center for Corporate Governance at Stanford University Closer Look Series: Topics, Issues and Controversies in Corporate Governance No. CGRP-16*.

Lisdayanti, A., Destion Daniel, R., & Anindita, W. (2013). Efektifitas Kinerja BPD Terhadap Pertumbuhan Ekonomi Daerah. *PESAT (Psikologi, Ekonomi, Sastra, Arsitektur & Teknik Sipil)*, *5*(22), 406–413.

Luayyi, S. (2010). Teori Keagenan dan Manajemen Laba dari Sudut Pandang Etika Manajer. *EL MUHASABA: Jurnal Akuntansi (e-Journal), 1(2)*

Lubis, A. (2016). Agency Problem Dalam Penerapan Pembiayaan Akad Mudharabah Pada Perbankan Syariah. *Alqalam*, *33*(1), 46.

Mahrani, M., & Soewarno, N. (2018). The Effect of Good Corporate Governance Mechanism and Corporate Social Responsibility on Financial Performance with Earnings Management as Mediating Variable. *Asian Journal of Accounting Research*, *3*(1), 41–60. https://doi.org/10.1108/AJAR-06-2018-0008.

Margaretha, F., & Asmariani, A. (2009). Faktor-faktor Agency Theory yang Mempengaruhi Hutang. *Media Riset Bisnis & Manajemen*, *9*(1), 1-20.

Michael, N. B. (2013). Agency Conflict and Corporate Dividend Policy.

Nur, Endah Rochmawati and Tarjo, S. M. (2020). the Implementation of Good Corporate Governance and Efforts to Prevent Fraud in Banking Companies. *Jurnal Reviu Akuntansi Dan Keuangan*, *10*(1), 136–149.

Nur'ainy, R., Nurcahyo, B., Sri Kurniasih, A., & Sugiharti, B. (2013). Implementation of Good Corporate Governance and Its Impact on Corporate Performance: The Mediation Role of Firm Size (Empirical Study from Indonesia). *Global Business & Management Research*, *5*.

OECD (Organization for Economic Cooperation and Development). 2004. OECD principles of corporate governance. Paris: OECD Publications.

Perrow, C. (1986). Economic Theories of Organization. *Theory and society*, 11-45.

Primasari, R., & Sudarno. (2013). Pengaruh Koneksi Politik dan Corporate Governance.

Purwanto. (2019). Analisis Perbandingan Antara Tingkat Kesehatan Bank Pembangunan Daerah Dengan Bank Umum Lainnya. *Jurnal AKTUAL*, *17*(1), 1.

QRS International. (2013). *NVIVO User Help*. Retrieved Juli 29, 2021, from NVIVO: https://help-nv.qsrinternational.com/20/win/Content/welcome.htm

Raco, J. R. (2010). *Metode Penelitian Kualitatif: Jenis, Karakteristik, dan Keunggulannya.* Jakarta: Grasindo.

Rozeff, M. (1982). Growth, Beta and Agency Costs as Determinants of Dividend Payout Ratios. *Journal of Financial Research 5, 249-259*

Saldana, J. (2013). *The Coding Manual for Research Qualitative Researchers.* London: SAGE.

Saqib, N. (2013). Impact of Development and Efficiency of Financial Sector on Economic Growth: Empirical Evidence from Developing Countries. *Journal of Knowledge Management, Economics and Information Technology*, *3*(3).

Sastriana, D. F., & Fuad, F. (2013). The Effect of Corporate Governance and Firm Size on Companies Experiencing (Financial Distress). *Diponegoro Journal of Accounting*, *3*, 1-10.

Sayidah, N. (2004). *Mengurangi Perilaku Moral Hazard Melalui*. 94–99.

Triwahyuningtias, M., & Muharam, H. (2012). *Analisis Pengaruh Struktur kepemilikan, Ukuran Dewan, Komisaris Independen, Likuiditas dan Leverage Terhadap Terjadinya Kondisi Financial Distress (Studi Pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Periode Tahun 2008-2010)* (Fakultas Ekonomika dan Bisnis).

Vernimmen, P., Quiry, P., & Le Fur, Y. (2022). *Corporate Finance: Theory and Practice*. John Wiley & Sons.

Wardhani, R. (2006). Mekanisme Corporate Governance Dalam Perusahaan yang Mengalami Permasalahan Keuangan (Financially Distressed firms). *Simposium Nasional Akuntansi*, *9*, 1-26.

Yuniarti, S., Chandrarin, G., & Subiyantoro, E. (2018). The Direct and Indirect Impacts of Good Corporate Governance on Banking Stability: An Empirical Study in Indonesia. *International*

Yushita, A. N. (2010). Earnings Management Dalam Hubungan Keagenan. *Jurnal Pendidikan Akuntansi Indonesia,* 8(1), 53–62.